Collicutt Energy Services Ltd.

2003 Annual Report

HIGHLIGHTS

($000s – except share data)	2003	2002	2001
OPERATING			
Revenue			
Service	**45,263**	53,428	61,076
Fabrication	**77,891**	70,214	62,705
	123,154	123,642	123,781
Gross profit	**22,150**	23,395	19,209
Gross profit percentage	**18.0%**	18.9%	15.5%
Income (loss) before income taxes	**1,462**	1,658	(1,876)
Net earnings (loss)	**943**	910	(1,273)
Operating cash flow	**4,566**	5,267	1,729
EBITDA(1)	**7,094**	7,768	4,332
Capital expenditures	**2,384**	1,262	12,550
FINANCIAL			
Working capital	**13,842**	10,403	6,903
Working capital ratio	**1.30**	1.18	1.08
Working capital ratio (excluding callable debt)	**1.93**	1.78	1.43
Total assets	**99,210**	109,774	133,070
Long-term debt	**1,546**	1,951	2,536
Shareholders' equity	**51,043**	50,073	49,163
Total debt to equity	**0.94**	1.19	1.71
Weighted average number of shares (basic)	**10,895,325**	10,893,215	10,893,215
Earnings per share (basic)	**0.09**	0.08	(0.12)
Cash flow per share (basic)(1)	**0.42**	0.48	0.16

(1) EBITDA is calculated from the consolidated statement of earnings as revenue less operating, and general and administrative expenses and is used to assist management and investors in assessing the Company's ability to generate cash from operations. Cash flow, which is expressed before changes in non-cash working capital, is used by management to analyse operating performance, leverage and liquidity. EBITDA and cash flow are non-GAAP earning measures that do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies.

The Annual General Meeting of Shareholders will be held on Wednesday, April 21, 2004 at 4:00 p.m. at the offices of Collicutt Energy Services Ltd. located at 7550 Edgar Industrial Drive, Red Deer, Alberta. All shareholders are invited to attend and if unable to, are requested to complete, sign and return the form of proxy at least 48 hours prior to the meeting.

MESSAGE TO SHAREHOLDERS

Last years annual report described 2002 as a period of renewal for Collicutt Energy Services during which we had returned the Company to profitability. We moved into 2003 with a renewed commitment to achieving success for our stakeholders; our shareholders, our customers and our employees. We re-branded our identity early in this year, changing our name to Collicutt Energy Services Ltd. Our sales and marketing capabilities were re-energized through the establishment of our own internal sales team. Key strategies were developed and implemented to generate better top line and bottom line results and we continued to implement improvements in our business processes and shop floor operations. Although we are confident that these changes will benefit the Company for years to come, their impact on the 2003 results was less than satisfactory.

Operational results and changes in financial position over the last year produced mixed results. Revenue and profitability levels were at comparable levels to 2002, but were below the threshold levels we had set as targets for ourselves. While remaining profitable, we did not experience substantial increases in activity at a time when the industry was quite busy. However, we made great strides in strengthening our balance sheet by reducing our investment in inventory, divesting of redundant assets, consolidating operations and reducing overall debt levels.

Service division results declined on a year-over-year basis as customer maintenance and refurbishment activity was less robust than expected and our market share was impacted by the emergence of a number of small independent operators. We will be focusing significant time and attention on this division in 2004 with a view to regaining lost market share and increasing our revenue base and profitability levels. Service has been the bedrock of our growth over the last seventeen years and we remain confident in our abilities, our people and our resourcefulness.

During 2003, all of our fabrication activities were consolidated into one location, delivering on our commitment to optimize facility utilization. Lean manufacturing practices continued to be introduced and this initiative is being carried forward into 2004, as a pivotal success strategy for this division. Compression activity and profitability increased considerably from the previous year but were impaired by decreased power generation equipment sales as the markets for power products were impacted by low electricity pricing and high prices for natural gas inputs.

During this last year, our management team was collectively focused on improving the Company's financial position and the results are evident in a number of areas. Working capital improved by over 30%, inventory and work-in-progress levels were reduced by $7 million and long-term debt was decreased by over 25%. Cost containment, capital structure and increased facility utilization will continue to be critically examined in all areas of our business as we move through 2004. Our improved financial position will provide the Company with the ability to take advantage of emerging market opportunities without having to add undue leverage to our balance sheet.

As this next year unfolds, you can expect the Collicutt team to continue to invest in strategies that align customer success with product and service excellence, with particular emphasis on responsiveness, comprehensive field level support and value added oilfield solutions. Our name and brand changed in 2003, but not our unwavering commitment to customer service and success. This commitment has been the back bone of our organization for seventeen years and will continue to define our organization for years to come.

We move forward into 2004 with improved financial strength and a firm resolve to improve shareholder value through sound business strategies, a shared vision and the pursuit of continuous improvement in all areas of our business. On behalf of the board of directors, management and employees of Collicutt Energy Services Ltd., I want to thank you for your continued confidence and commitment to our Company.

Steven Collicutt

STEVEN M. COLLICUTT
President and Chief Executive Officer

OPERATIONS REVIEW

COLLICUTT ENERGY SERVICES – AT YOUR SERVICE

Collicutt Energy Services, a leading Canadian oilfield service and fabrication company, began its operations in Red Deer over 17 years ago, providing compression maintenance and repair services to regional oil and gas companies. Since inception, the Company's service operations have expanded into a network of eleven branches throughout Western Canada. While our business has grown more diversified and complex since 1986, we have never lost sight of our strong customer service roots.

THE SERVICE DIVISION offers field and shop based compression and power equipment maintenance and re-furbishment services to a broad range of exploration and development companies located across Western Canada.

THE FABRICATION DIVISION designs and manufactures natural gas compression packages, reciprocating and turbine driven power generation systems and custom fabrication of oilfield production equipment. The custom fabrication group markets a variety of products and services utilizing our full-service facilities, infrastructure and equipment packaging competencies. These products include pressure vessels, structural components, pressure-piping systems and customized equipment modules.

Collicutt Energy Services is a comprehensive oilfield company horizontally diversified across all facets of the natural gas industry. From initial engineering through to equipment manufacturing and commissioning, we provide a diverse product line of compression, power and customized production equipment. After start-up, an innovative parts and maintenance program ensures our equipment continues to operate at the exacting high standards to which it was designed. Additionally, when a customer's compression requirements change or equipment age mandates, Collicutt Energy Services refurbishes the equipment, returning it to first-rate condition and extending its valuable production life.

2003 – A YEAR IN REVIEW

2003 was a year characterised by unpredictable service activity levels and expanding capital infrastructure spending within the Canadian resource sector. Coming out of a year tempered by uncertainties in resource price trends and general economic malaise, Collicutt Energy Services anticipated that 2003 would be a period marked by pronounced expansion, where activity levels and capital spending in all product and service lines would return to higher levels, reflecting the re-emergence of strong industry dynamics and renewed confidence levels throughout the sector. Commodity prices certainly cooperated as natural gas and oil prices remained above historical levels and surprised more than a few industry observers with their resilience.

Actual 2003 industry dynamics did not fully meet our expectation and produced varied results at Collicutt Energy Services. Field service activity was lower on a year-over-year basis as many companies deferred equipment refurbishment and maintenance programs. During this period of buoyant commodity pricing many customers opted to continue with uninterrupted production and realize enhanced financial returns. While service levels were flat, spending on new compression fabrication increased from the previous year. As the number of new wells drilled set new record levels, exploration and development companies were motivated to bring new reserves on stream, requiring new compression and oilfield production equipment.

Increased facility utilization, implementation of cost-reduction measures and improved business processes were the dominant themes at Collicutt in 2003. Fabrication operations in Nisku and Maple Ridge were consolidated into the Red Deer facility and idle assets were redeployed or divested. Although significant one time costs were incurred to gather together the fabrication operations, we anticipate that these will be recouped through improved operational efficiency and reduced overhead costs in the years ahead.

The Company also took the bold move of re-branding itself as Collicutt Energy Services Ltd. Concurrent with this change, we assumed complete responsibility for all sales and marketing activities. The sales and marketing of compression equipment has previously been independently managed under a sales agency agreement. This major initiative required the establishment of a sales team, augmented by a full compliment of estimation and application support services. The expansion and integration of these functions will continue to be an area of focus in the upcoming year.

SERVICE DIVISION

For the first three quarters of 2003, service activity levels were below those of the comparative year. Constrained customer spending and the emergence of a number of small independent operators combined to impact revenue levels. Activity levels in the fourth quarter rebounded and exceeded 2002 on a year-over-year basis. This trend appears to be continuing into the first quarter of 2004 as our exploration and production customers return their attention to equipment maintenance and optimization.

In response to customer demand, two new satellite locations were added to our service network in 2003. An adjunct to the Red Deer service operation was established in Rocky Mountain House to provide timelier service to customers operating in the gas fields west of Red Deer. Complying with our expansion strategy of the last few years, this was set up as a satellite branch, with full technical and inventory support being provided by the Red Deer hub. During the last quarter of 2003, we expanded further north into Fort Nelson, British Columbia, with the acquisition of a small independent service company. This new satellite provides the Company with the ability to better infiltrate a market area where there is increasing customer activity. Fort Nelson, together with our established branch in Fort St. John, will be supported by the service hub in Grande Prairie. Activity levels in the Northern B.C. areas are anticipated to remain strong for the foreseeable future as E&P companies look further north to replace depleting resources in the more mature southern basins.

The Service division completed a business process review in 2003, designed to identify best practices across the network and more standardization throughout the division. A number of improvements in operational and internal controls were made as a result. Subsequent to completing the study, a software evaluation was done and various system solutions were rigorously analyzed. This review is continuing with the aim of introducing a division wide management tool in the near to medium term.

Effective January 1, 2003, Coll-Tech Ignition Systems, Inc. was amalgamated with Collicutt Energy Services Ltd. This amalgamation was done to further reduce administrative and other overhead costs. During 2003, several lower margin instrumentation services associated with the Coll-Tech operation were intentionally discontinued.

Although revenue levels trended downward, relative divisional profitability improved as better business processes, reduced inventory levels and a higher margin product mix combined to generate higher gross margin and EBIT percentages on a year-over-year basis. In 2004, divisional management will continue to explore opportunities to enhance profitability, while aggressively focusing on re-capturing and expanding industry market share.

Fabrication Division

Fabrication activity was stronger in 2003, although less than had been expected in view of increased industry activity. The compression group was particularly active as, other than the first quarter, it surpassed the previous year on a quarterly and year to date basis. The strong compression results were tempered by lower activity levels in turbine and reciprocating power generation. Custom fabrication services produced greater annual sales in 2003 but lower relative profitability.

The Fabrication division continues to be impacted by excess production capacity within an industry where cumulative assembly floor space far exceeds corresponding product demand. These market conditions influence competitive behaviour and product pricing, resulting in the commoditization of compression equipment. The Company has responded to these market challenges by seeking out competitive advantage in fabrication methods such as 'lean manufacturing'. Lean manufacturing practices and the move to a flow-based assembly floor are expected to reduce waste and inefficiency. We have also leveraged our investment in facilities and technical resources by centralizing all manufacturing in Red Deer. While these consolidations were quite costly to implement, multi-year benefits are expected from these reorganizations. We firmly believe market dominance will be awarded to those who become the lowest cost producers.

Power generation and custom manufacturing services provide important diversification from compression assembly. The Company completed a variety of power generation projects in 2003, including power turbine overhauls at a nuclear station, test cell development for a large European customer and the installation of a power system on an offshore production facility in the North Sea.

The custom fabrication group is a new and emerging department within the Fabrication division. Although it was more active in 2003, this did not translate into improved profitability. During the fourth quarter a new team leader was recruited to head up this department. We anticipate that custom fabrication services will be busier and more profitable in 2004 as it becomes a stronger competitor in this specialized industry sector.

2004 – The Year Ahead

Within the Fabrication division we will continue to implement strategies to shorten product delivery time without sacrificing product quality or adding to its relative cost. By focusing on value added activities and reducing all forms of waste, we will align our success with that of our customers.

Collicutt Energy Services began as a service company and has continued to be a leader in that segment of our industry. In 2004, we plan to renew our commitment to the service component of our business and more fully leverage our extensive branch networks and service capabilities.

As we have consistently stated, Collicutt Energy Services will continue to adhere to its strategic initiatives of cost control, financial discipline and maximum operational efficiency.

ENVIRONMENT, HEALTH AND SAFETY

A safe and healthy working environment is critical to the success of our business. Each year, a rigorous safety audit is conducted to help ensure the well being of our employees. In 2003, Collicutt Energy Services received an internal audit rating of 94%, upholding the standards set forth by Alberta Labour through the Certificate of Recognition for Safety program. We are involved in the Partners in Injury Reduction Program on an ongoing basis and receive Workers Compensation rebates as a result of our health and safety protection programs.

Employee training continues to be an integral part of our success and a large percentage of the hourly workforce is enrolled in apprenticeship programs. These programs include:

- Heavy Equipment technicians
- Millwrights
- B Pressure welders
- Welders
- Electricians
- Pipefitters
- Instrument technicians
- Painters
- Radiography technicians
- Partsmen
- Machinists

Our employees are critical to our success and we are committed to enhancing their skill sets.

The following management discussion and analysis contains information concerning the Company's vision, business strategies, capabilities, comparative financial results and an overview of our outlook for the Company and the industry as at February 18, 2004. The message to shareholders, operations review and financial statements, together with the accompanying note disclosures, also contain valuable information that supplements this discussion. Additional information is also available on the Company's website [www.collicutt.com] and all previous public filings, including the Annual Information Form [AIF] are available through SEDAR [www.sedar.com].

Collicutt Energy Services is engaged in two primary business activities - Service and Fabrication. The Service division maintains, repairs, and refurbishes natural gas compression and power generation equipment. The Fabrication division designs and assembles natural gas compression packages, power generation systems and oilfield production equipment. The Company is geographically focused within Western Canada, but does complete a number of projects globally, particularly within the fabrication group.

In 2002, we introduced some strategic initiatives into our operations to better leverage our core competencies and deliver on our promise of a return to profitability. These continued to be translated into action in 2003, as we reinforced our commitment to the sound business practices that have guided Collicutt through 17 years of growth and development.

During 2003, we identified increased facility utilization as a critical success factor. In late 2002, we discontinued the small compression operation in Nisku and in 2003, we relocated the Simpower fabrication operation to Red Deer. The intent was to integrate all fabrication operations into one location and capture the advantages of one integrated technical resource base and manufacturing infrastructure, reducing administrative overhead in the process. The Company incurred $0.6 million in severance and other one-time costs related to these moves.

During the first quarter of 2003, Collicutt assumed direct responsibility for fabrication sales and marketing, discontinuing the incumbent sales agency arrangement. A sales and marketing team was established in Calgary under the direction of Scott Collicutt, the newly appointed vice-president, sales & marketing. This major undertaking required not only the establishment of new marketing programs, but also support applications, estimation and quotation infrastructures. This sales restructuring was externally focused on our strategy of assuming ownership of our customer franchise, improving customer responsiveness and increasing fabrication sales.

Concurrent with establishing a new sales and marketing team, the Company's name was changed to Collicutt Energy Services Ltd. This re-branding was intended to better describe the diverse nature of our products and services and remove any residual confusion concerning our ownership and management structures. It was clearly aligned with the Company's initiative to take a more active role in the sales of new compression equipment. The Company incurred one-time costs of $0.2 million to affect this change.

During 2003, a business process review was completed within the Service division with a view towards introducing a new, fully integrated software package. Detailed product reviews are currently underway and it is likely that a new management tool will be introduced sometime in 2004. One result of the business process review was a realignment of the Red Deer Service branch and the divisional operations, which historically functioned as one unit.

Acknowledging excess compression production capacity, Collicutt has resolved to increase its market share by delivering a quality product, in the shortest possible time and at a competitive price, supporting it with a responsive service network. During 2003, the Fabrication division continued to implement its 'Lean Thinking' initiative as a strategy to deliver on this goal. 'Lean Thinking' is a commitment to achieving a waste-free operation by simplifying processes and accelerating continuous improvement. This is a long-term undertaking that is being carried forward into 2004, during which the manufacturing floor is being re-aligned around a "flow based" assembly methodology. The goal is to increase shareholder value by becoming the lowest cost producer in our market segment.

The Company identified improved capital structure as a strategic goal in the 2002 Annual Report and in 2003 steps were taken to strengthen the balance sheet. The idle fabrication facility in Nisku was sold and additional capital was generated from the sale and lease back of the Edmonton service facility. The Company had an option on 20 acres of land contiguous to the fabrication facility, which was exercised and sold during 2003, as it was no longer necessary for future expansion. The proceeds of $3.4 million [gain of $0.8 million] were applied against long-term debt.

		2003				2002			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues		**29,746**	**30,303**	**35,338**	**27,767**	30,778	31,364	27,878	33,622
Net income (loss)		**1,268**	**(445)**	**1,002**	**(882)**	694	1,020	(519)	(285)
EPS	Basic	**0.12**	**(0.04)**	**0.09**	**(0.08)**	0.06	0.09	(0.04)	(0.03)
	Diluted	**0.12**	**(0.04)**	**0.09**	**(0.08)**	0.06	0.09	(0.04)	(0.03)
Total assets		**99,210**	**103,947**	**110,325**	**100,561**	109,774	109,791	122,822	131,780
Long-term debt		**18,470**	**21,692**	**22,362**	**22,853**	25,036	26,032	27,059	28,167

General discussion of quarterly results is contained within the divisional analysis and review.

SELECTED FINANCIAL INFORMATION

As at December 31, ($000s except per share amounts)	**2003**	2002	2001
Revenue	**123,154**	123,642	123,781
Net earnings (loss)	**943**	910	(1,273)
Total assets	**99,210**	109,774	133,070
Long-term debt	**1,546**	1,951	2,536
Long-term debt inclusive of non-current callable portion	**16,660**	21,327	22,233
Earnings (loss) per share – basic	**0.09**	0.08	(0.12)
Earnings (loss) per share – diluted	**0.09**	0.08	(0.12)

Total revenues have remained static during the last three years. Service revenues trended lower in each of these years as customer spending on routine service and maintenance softened. Fabrication revenues trended higher in each year reflecting increased spending, particularly on compression equipment. Overall, combined activity was at about the same levels.

Net earnings in 2003 and 2002 were quite similar in absolute terms and as a percentage of sales. The negative results in 2001 were directly attributable to the fabrication product lines where costs associated with the acquisition of Simpower and lower than anticipated margins produced divisional losses.

Total asset levels declined steadily each year as the impact of inventory reductions, improved credit management and lower capital expenditures took hold. Long-term debt levels have been reduced as new issuances of debt have been offset by routine repayments and accelerated reductions associated with the proceeds on sale of capital assets.

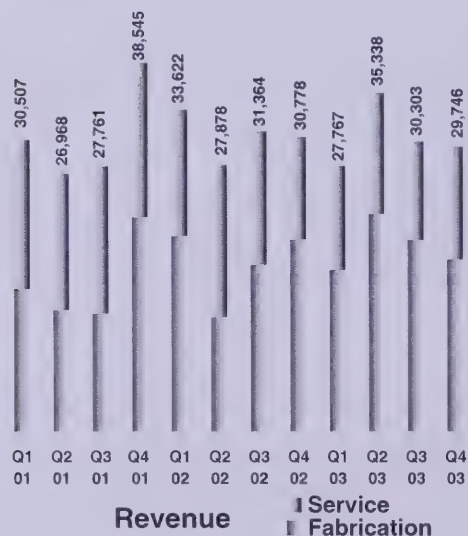
In 2003, the Company prospectively adopted a policy regarding the recognition of stock-based compensation costs in accordance with CICA handbook section 3870, which resulted in the recording of $7 thousand of compensation expense for the year. Additionally, the Company entered into a three year interest rate swap arrangement, which it has deemed to be an effective hedge, to mitigate the interest rate risk associated with its floating rate term debt. This arrangement fixed the interest rate on the Company's term debt at 6.5% through to April 30, 2006. The Company has followed hedge accounting for this financial derivative and disclosed the fair value of the interest rate swap in its notes to the financial statements in accordance with the provisions of CICA Accounting Guideline 13.

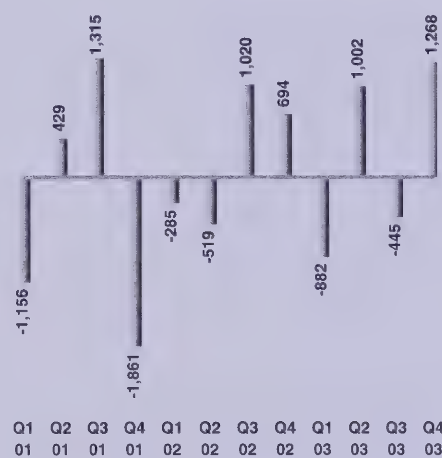
During December 2003, the CICA released EIC 141 "Revenue Recognition" and EIC 142 "Revenue Arrangements with Multiple Deliverables". These are both applicable to fiscal periods commencing in 2004. Management has reviewed these pronouncements and believes that no changes to the Company's current accounting policy with respect to revenue recognition will be required.

Consolidated

As at December 31, ($000's)	**2003**	2002
Revenue	**123,154**	123,642
Gross profit	**22,150**	23,395
General and administrative	**15,374**	15,791
Interest	**2,048**	1,988
Net earnings	**943**	910
EBITDA (1)	**7,094**	7,768
Capital expenditures	**2,384**	1,262

(1) EBITDA is calculated from the consolidated statement of earnings as revenue less operating and general and administrative expenses. It is a non-GAAP earnings measure that does not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies. It is used to assist management and investors in assessing the Company's ability to generate cash from operations.





Consolidated revenues tracked closely to the previous year, decreasing marginally by \$0.4 million from \$123.6 million in 2002 to \$123.2 million in 2003. Although the revenue levels were quite similar, the product mix underlying these results was markedly different on a year-over-year basis, as the Fabrication division was more active and the Service division less so than the previous year.

In 2003, except during the first and fourth quarters, the Fabrication division outperformed the 2002 comparative quarterly results, as industry activity in this segment was more robust on a year-over-year basis. Conversely, the Service division underperformed each of the comparative quarters with the exception of the fourth quarter throughout 2003, as increased competitive pressure and decreased customer maintenance spending combined to produce lower revenues in 2003.

Consolidated gross profit decreased by 5.6% to $22.1 million in 2003 from $23.4 million in 2002. Gross profit as a percentage of sales also decreased from 18.9% to 18.0% over the same period. The 2003 results reflect lower revenues in the higher margin service lines and higher annual revenues in the lower margin fabrication products.

Consolidated general and administrative expenses decreased by $0.4 million to $15.4 million in 2003 from $15.8 million in 2002, as Collicutt implemented a number of successful cost containment strategies. Offsetting these savings were the incremental costs of internalizing the sales and marketing functions and the expenditures of corporate re-branding. Although the individual costs varied, overall general and administrative expenses decreased on a year-over-year basis.

Interest expense increased 3.0% in 2003. During the second quarter of 2003, the interest rates on the term debt were fixed at 6.5% using interest rate swap contracts. This rate was higher than the previous floating rate agreements. Increased interest expense also reflects a weighted average prime rate increase from 4.2% in 2002 to 4.7% in 2003. Lower long-term debt levels and less usage of the operating loan during 2003 helped to mitigate these increases.

Consolidated Net Earnings remained constant at $0.9 million in 2003 and 2002. Included in 2003 net earnings are a one-time gain of $0.8 million on the sale of land and $0.6 million of costs to relocate the Simpower fabrication operation to Red Deer.

Capital expenditures of $2.4 million in 2003 include the establishment and expansion of satellite branch operations in Rocky Mountain House, Alberta and Fort St. John, British Columbia, in addition to routine capital additions to the service fleet and fabrication facilities.

Related Party Transactions – in the course of its regular business activities, the Company engages in routine transactions with Hanover Compressor Company, a 24% shareholder of the Company. These transactions occur under normal market conditions on the same terms as are applied to unrelated party transactions.

As at December 31, ($000s)	**2003**	2002
Sales of equipment and services	**11,026**	9,288
Purchases of parts, equipment and services	**500**	1,309
Amounts in account receivable	**2,854**	1,633
Amounts in account payable	**-**	-

SERVICE DIVISION

As at December 31, ($000s)	2003	2002
Revenue	**45,263**	53,428
Earnings before interest and income tax	**5,546**	6,247
Capital expenditures	**990**	902

Service revenues are generated from a network of 11 branches located throughout Western Canada. Service revenues decreased to $45.3 million in 2003 from $53.4 million in 2002. Certain revenue streams, particularly within the lower margin instrumentation area, were intentionally curtailed during 2003. These resources were redeployed on more profitable pursuits. Some customers chose to forego non-routine maintenance in favour of prolonging production during this last period of strong resource pricing, especially in areas with significant shallow gas production.

Some service areas experienced market share loss in 2003, primarily to small emerging independent operators rather than other large competitors. This represents a partial loss of business only, as many of these emerging independents have become customers for parts and specialty services.

2003 fourth quarter service revenues improved 9.6% over the same period in 2002, as we experienced a return to more typical activity levels. In 2004, we expect that many deferred maintenance programs will be resurrected as the long-term functionality of core production systems takes precedence over shorter-term profit objectives.

EARNINGS BEFORE INTEREST AND TAXES ["EBIT"] declined to $5.5 million in 2003 from $6.2 million in 2002 reflecting the impact of lower revenues. However, EBIT as a percentage of sales increased from 11.7% in 2002 to 12.3% in 2003 as the division culled certain lower margin service lines and focused on a more profitable product mix.

Capital expenditures in 2003 increased to $1.0 million from $0.9 million in 2002 as a new branch was established in Rocky Mountain House and an existing branch in Fort St. John was expanded. The remaining capital costs were for service fleet additions and replacements.

FABRICATION DIVISION

As at December 31, ($000's)	2003	2002
Revenue	**77,891**	70,214
Earnings before interest and income tax	**1,494**	1,415
Capital expenditures	**1,302**	261

Fabrication revenues increased 11.0% to $77.9 million from $70.2 million in 2002. Within the division, compression and custom fabrication revenues increased by 24.4% on a year-over-year basis, while power generation revenues declined by 14.1% over the same period. Despite the start up issues of a new sales team, compression and custom fabrication sales increased in tandem with industry expenditures on new equipment. A large percentage of power generation equipment is sold internationally, particularly within the United States. These markets were impacted by weaker economies and excess inventory levels from the prior year.

EBIT increased by $0.1 million to $1.5 million in 2003 from $1.4 million in 2002. EBIT decreased marginally as a percentage of sales on a year-over-year basis reflecting declining profitability in custom fabrication and power generation, offset by increased compression fabrication.

Capital Expenditures increased by $1.0 million on a year-over-year basis. The larger capital expenditures in 2003 consisted of a test cell for turbine engines and the capitalization of a generator set. The remaining capital expenditures were for routine facility and equipment additions.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, ($000's)	**2003**	2002
Operating Loan	**14,232**	14,457
Current portion of long-term debt	**1,810**	3,709
Non current portion of callable long-term debt	**15,114**	19,376
Long-term debt	**1,546**	1,951
Total operating and term debt	**32,702**	39,493
Working capital	**13,842**	10,403
Working capital excluding non-current portion of callable long-term debt	**28,956**	29,779

Cash flow from operations, before changes in non-cash working capital, decreased by $0.7 million to $4.6 million in 2003 from $5.3 million in 2002. Cash resources were used to fund $2.4 million of capital assets, in addition to recurring operational activities. Working capital, inclusive of the non-current portion of callable long-term debt, increased 32.7% to $13.8 million in 2003 from $10.4 million in 2002.

At December 31, 2003, Collicutt had total operating and term loan indebtedness of $32.7 million [2002: $39.5 million]. In compliance with a CICA Emerging Issues Committee abstract, as described in Note 7 to the Financial Statements, the non-current portion of long-term debt has been classified as current due to its callable feature. This accounting disclosure is not indicative of the Company's intention to repay these amounts within the next year or of the lender's intention to enforce repayment within the next year.

Long-term debt, inclusive of the current portion, decreased by $6.5 million, or 26.0%, on a year-over-year basis, from $25.0 million in 2002 to $18.5 million in 2003. The decrease results from recurring monthly payments, the sale of the Nisku, Fort St. John and Edmonton facilities and the exercise and sale of a Red Deer land option. The total debt to equity ratio, including all current and long-term liabilities, decreased from 1.19 to 1 in 2002 to 0.94 to 1 at December 2003.

The Company has an operating loan of $38.0 million [2002: $38.0 million] to finance current operations. As at December 31, 2003, $14.2 million of this facility had been drawn upon [2002: $14.5 million]. Management is confident that this level of financing, combined with cash flow generated from operations, is sufficient to fund operational activities for the foreseeable future.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4-5 years	After 5 years
Long-term debt	21,873	2,415	4,830	4,830	9,798
Capital leases	2,323	570	1,051	702	-
Operating leases	2,027	625	883	176	343
	$ 26,223	$ 3,610	$ 6,764	$ 5,708	$ 10,141

Other than the issuance of 10,000 common shares pursuant to the exercise of certain vested stock options, no additional common shares were issued during either 2003 or 2002, as outlined below:

As at December 31 ($000's)	2003		2002	
Issued	**Common shares**	**Amount**	Common shares	Amount
Balance, beginning of year	**10,893,215**	**40,459**	10,893,215	40,459
Stock options exercised	**10,000**	**20**	-	-
Balance, end of year	**10,903,215**	**40,479**	10,893,215	40,459

OUTLOOK

This Management Discussion and Analysis contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. Should one or more of these risk factors materialize, or should assumptions prove incorrect, actual results may vary significantly from those expected.

2003 was a year in which the oil services industry was quite active as a record number of wells were drilled in Western Canada and commodity pricing remained strong throughout the year. Early indications are that in excess of 20,000 new wells will be drilled again in 2004. At this stage, analysts are forecasting 2004 gas prices to average below 2003 but to remain at viable economic levels.

Strong resource pricing and high drilling activity combined with substantial depletion rates on existing production should eventually result in increased demand for compression products and services. As the consumption of Canadian natural gas increases and depletion takes its toll, the demand for new and refurbished equipment to maintain production from aging fields will become a greater factor.

Excess compression production capacity continues to impact product pricing and unduly influence the competitive environment. Collicutt is not unaffected by these competitive trends and will continue to deal with the market impacts of a situation where there is more production capacity than there is product demand.

In 2004, there will be a concerted focus on our service operations with the goals of regaining lost market share, expanding our client and geographic scope, increasing activity, and improving profitability within this division. This operation has been the core of our competitive strength and the basis of our historical growth and we expect increased service activity in 2004. This will require intensive management concentration and continuing business process improvement.

No new service branches are being planned for 2004. We will continue to strategically focus on centralization and refinement of business processes and increased facility utilization within our existing branch network.

Within the Fabrication division, our goal is to become the lowest cost producer in our industry. The implementation of lean manufacturing practices will continue to be advanced and a flow-based manufacturing structure will be introduced. We anticipate that 2004 activity levels will be similar to 2003. Our focus on cost containment and operational efficiency will become the basis for our competitive advantage.

Collicutt expects to exit 2004 with improvements in operational efficiency, activity levels, profitability and cash flow. Although we operate in a cyclical industry that is subject to many external influences, management remains confident in the market opportunities for the Company's products and services within the framework of the North American natural gas industry.

Business Risks - The Canadian oil and gas service industry is impacted by a range of factors that are difficult to actively manage. These include economic cycles, commodity pricing, gas storage levels and climate. Collicutt is attempting to mitigate these business risks by strengthening its balance sheet and remaining responsive to changing industry dynamics.

The Company also maintains comprehensive insurance programs to safeguard its assets, operations and employees. These are reviewed annually and amended as changes in circumstances warrant.

Credit risk – The Company manages credit risk by transacting with only pre-authorized counter parties and employing full time credit management. Progress payments are required for all non-domestic sales and typically, up to 90% of the project value is received prior to shipment. In addition, export insurance and confirmed letters of credit are obtained on all material international projects.

Currency risk - The Company purchases a considerable portion of its products through U.S. based suppliers, which are transacted in U.S. dollars. Derivatives and other financial instruments are not used at this time. The Company also sells products and services in U.S. dollars, thereby partially offsetting a portion of the foreign exchange exposure.

Interest rate risk - The Company's bank borrowings and capital lease obligations are subject to floating interest rates. This floating rate debt is subject to interest rate risk, as the required cash flow to service the debt will fluctuate as a result of changes in market rates. The Company has mitigated the interest rate risk on the floating rate term debt by entering into an interest rate swap arrangement to fix its interest rate exposure through to April 2006.

Seasonality - Climate and customer operating cycles can influence seasonal demand for the Company's products and services. Quarterly activity levels within the Service division are fairly neutral across the quarters, with a tendency for higher activity in the last three months of the year. Fabrication activity tends to be greater during the first and fourth quarters as equipment is usually delivered during the colder winter months.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The preparation and presentation of the accompanying consolidated financial statements are the responsibility of the management of the Company. The statements have been prepared in accordance with Canadian generally accepted accounting principles as described in Note 2 to the consolidated financial statements. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management acknowledges responsibility for the integrity of its financial information. Where appropriate, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

The Board of Directors has appointed an Audit Committee that consists of three independent directors. The committee meets with management and the Company's external auditors, Deloitte & Touche LLP, to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Steven Collicutt

Steven M. Collicutt
President and Chief Executive Officer

Thomas E. Lewis, CA
Vice-President, Finance & Chief Financial Officer

February 18, 2004

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Collicutt Energy Services Ltd. as at December 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and of cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 18, 2004

Deloitte & Touche LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31, ($000's)	2003	2002
ASSETS		
Current		
Accounts receivable	**22,624**	23,098
Inventory and work-in-progress *(Note 3)*	**36,589**	43,387
Prepaid expenses and deposits	**258**	992
Future income taxes *(Note 9)*	**426**	470
Income taxes recoverable	**184**	27
	60,081	67,974
Capital assets *(Note 4)*	**39,129**	41,800
	99,210	109,774
LIABILITIES		
Current		
Operating loan *(Note 6)*	**14,232**	14,457
Accounts payable and accrued liabilities	**9,592**	16,060
Deferred revenue	**5,491**	3,969
Current portion of long-term debt *(Note 7)*	**1,810**	3,709
Non-current portion of callable long-term debt *(Note 7)*	**15,114**	19,376
	46,239	57,571
Long-term debt ***(Note 7)***	**1,546**	1,951
Future income taxes ***(Note 9)***	**382**	179
	48,167	59,701
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*	**40,479**	40,459
Contributed surplus	**7**	-
Retained earnings	**10,557**	9,614
	51,043	50,073
	99,210	109,774

Approved by the Board

Steven Collicutt

Steven M. Collicutt
Director

Jeffrey S. Boyce
Director

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31, ($000's except per share amounts and number of common shares)	2003	2002
Sales	**123,154**	123,642
Cost of goods sold	**101,004**	100,247
Gross profit	**22,150**	23,395
Other income *(Note 10)*	**318**	164
	22,468	23,559
Expenses		
General and administrative	**15,374**	15,791
Interest	**2,048**	1,988
Amortization	**3,584**	4,122
	21,006	21,901
Earnings before income taxes	**1,462**	1,658
Income taxes *(Note 9)*		
Current	**293**	415
Future	**226**	333
	519	748
Net earnings	**943**	910
Retained earnings, beginning of year	**9,614**	8,704
Retained earnings, end of year	**10,557**	9,614
Earnings per share *(Note 8)*		
Basic	**0.09**	0.08
Diluted	**0.09**	0.08
Weighted average number of common shares		
Basic	**10,895,325**	10,893,215
Diluted	**10,942,429**	10,917,178

CONSOLIDATED STATEMENT OF CASH FLOW

Years ended December 31, ($000's)	2003	2002
Cash flows related to the following activities:		
Operating		
Net earnings	**943**	910
Adjustments for:		
Amortization	**3,584**	4,122
(Gain) loss on sale of assets	**(11)**	1
Compensation expense	**7**	-
Future income tax expense	**226**	333
Provision for warranty costs	**(183)**	(99)
	4,566	5,267
Net change in non-cash working capital *(Note 11)*	**3,194**	15,735
	7,760	21,002
Financing		
Issuance of share capital	**20**	-
Issuance of long-term debt	**-**	4,000
Repayment of long-term debt	**(6,823)**	(4,081)
	(6,803)	(81)
Investing		
Business acquisition *(Note 5)*	**(127)**	-
Purchases of capital assets	**(2,384)**	(1,262)
Proceeds on disposition of capital assets	**1,779**	241
	(732)	(1,021)
Net increase in cash and cash equivalents	**225**	19,900
Cash and cash equivalents, beginning of year	**(14,457)**	(34,357)
Cash and cash equivalents, end of year	**(14,232)**	(14,457)
Represented by:		
Cash and short-term deposits	**4**	16
Operating loan	**(14,236)**	(14,473)
	(14,232)	(14,457)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 (Tabular amounts in $000s except for share data)

NOTE 1: DESCRIPTION OF BUSINESS

Collicutt Energy Services Ltd. operates in Canada and is structured into two business segments as follows:

Service consists of repair, maintenance and refurbishing of compressor and power generation packages and the supply of parts for equipment used in the production, processing and transportation of natural gas. Service also consists of repairs, maintenance and refurbishing of power generation equipment used for the production of electricity.

Fabrication consists of the design, engineering and fabrication of compressor packages and oilfield equipment for the production, processing and transportation of natural gas and power generation systems for the production of electricity.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Simpower Ltd. and Alcan Compression Ltd. In 2003, Collicutt Energy Services Ltd. amalgamated with its wholly owned subsidiary, Coll-Tech Ignition Systems, Inc.

Revenue Recognition
Service revenues are recorded when goods are shipped and services are rendered. Equipment fabrication revenues are recognized using the completed contract method whereby revenue is recorded upon final completion of the job and transfer of title. Any foreseeable losses on contracts are charged to operations at the time they become evident. Progress billings made prior to completion of projects are recorded as deferred revenue.

Inventory and Work-in-Progress
Finished goods are recorded at the lower of cost (principally on the first-in, first-out method) and net realizable value. Parts are recorded at the lower of cost (weighted average) and net realizable value. Work in progress consists of compressor and power equipment under construction and includes material, labour and fabrication overhead.

Income Taxes
The liability method is used in accounting for income taxes whereby future income tax assets and liabilities are measured based upon temporary differences between the carrying value of assets and liabilities and their tax bases. Future income tax expense (recovery) is computed based on the change during the year in the future tax assets and liabilities. The effect of changes in tax laws and tax rates are recognized when enacted.

Capital Assets
Capital assets are recorded at cost and amortization is provided using the following methods and rates:

Buildings	4% to 10% declining balance
Leasehold improvements	Straight line over the lease term
Equipment	20% to 30% declining balance

Foreign Exchange
Transactions denominated in foreign currency are translated into Canadian dollars using the exchange rates in effect at the dates of the transactions. Monetary balances are translated into Canadian dollars using the exchange rates in effect at the statement date. Translation gains or losses are included in the statement of earnings.

Earnings per share
The treasury stock method is used to determine the dilutive effect of stock options issued.

Stock–Based Compensation Plan
The Company accounts for its stock-based compensation plan using intrinsic values whereby compensation costs are recognized for share options granted to employees and directors when issued at market value. In 2003, the Company prospectively adopted the requirements of CICA Handbook section 3870 and changed its policy to record compensation costs for stock-based compensation issued on or after January 1st, 2003 at fair value. Pro-forma disclosures of 2002 results have been made in Note 8.

Cash and Cash Equivalents
Cash and cash equivalents include cash on deposits with maturities of less than 90 days and operating loans of a short-term revolving nature.

Financial Instruments
The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair values at December 31, 2003 and 2002 due to their short-term nature. The carrying value of the operating loan approximates its fair value due to the floating interest rate nature of the debt

The Company's long-term debt is comprised of floating prime based term debt and, as such, the Company is exposed to interest rate risk. The Company has mitigated this risk by entering into an interest rate swap arrangement. The fair value of the interest rate swap is described in Note 7.

Hedging
The Company utilizes interest rate swaps to mitigate interest rate risk with respect to its floating rate term debt and follows hedge accounting wherein the use of these derivatives are deemed to be effective hedges. If the hedge accounting were deemed not to be appropriate, changes in the fair value of the derivative instruments would be reported as gains or losses in the period of change.

Warranty Provision
The Company records a provision for expected warranty costs. The Company's warranty period is typically one year from the date of sale. The warranty provision is included as part of accounts payable and accrued liabilities.

Comparative Amounts
Certain comparative numbers have been reclassified to conform to the presentation in the current year.

NOTE 3: INVENTORY AND WORK-IN-PROGRESS

As at December 31,	2003	2002
Parts	13,185	19,492
Work-in-progress	9,708	11,271
Finished goods	13,352	12,624
Land held for resale	344	-
	36,589	43,387

NOTE 4: CAPITAL ASSETS

December 31, 2003	Cost	Accumulated Amortization	Net Book Value
Land	**2,378**	**-**	2,378
Buildings	**31,461**	**4,318**	27,143
Leasehold improvements	**445**	**202**	243
Equipment	**17,682**	**9,870**	7,812
	51,966	**14,390**	37,576
Equipment under capital lease	**3,052**	**1,499**	1,553
	55,018	**15,889**	39,129

December 31, 2002	Cost	Accumulated Amortization	Net Book Value
Land	2,691	-	2,691
Buildings	32,842	3,443	29,399
Leasehold improvements	403	153	250
Equipment	15,231	8,000	7,231
	51,167	11,596	39,571
Equipment under capital lease	3,568	1,339	2,229
	54,735	12,935	41,800

NOTE 5: BUSINESS ACQUISITIONS

On September 30, 2003, the Company acquired 100% of the outstanding shares of Alcan Compression Ltd. (Alcan). Alcan was established in 2001 in Fort Nelson, British Columbia as a service company for compression equipment. The purchase price, including legal fees, was paid in cash. The acquisition has been accounted for using the purchase method of accounting. The results of Alcan's operations were consolidated from October 1, 2003 to December 31, 2003. The purchase price allocation was as follows:

Current assets	**376**
Capital assets	**295**
Total assets acquired	**671**
Bank indebtedness	**56**
Current liabilities	**260**
Future income taxes	**39**
Long-term debt	**245**
Total liabilities assumed	**600**
Total acquisition costs	**71**
Add bank indebtedness assumed	**56**
Acquisition cost inclusive of bank indebtedness assumed	**127**

NOTE 6: OPERATING LOAN

The Company has an operating loan facility of $38 million at December 31, 2003 (2002: $38 million), which is funded through direct borrowing and bankers acceptances. The operating loan facility incurs interest on a sliding scale based on cash flow to annual debt service varying from prime to prime plus 0.50% or at the banker's acceptance rate plus acceptance-stamping fee. The operating loan facility is payable on demand and is secured by a general security agreement and an assignment of the Company's inventory. The term bank loans described in Note 7 are also secured under these arrangements.

As at December 31, 2003, $14.2 million (2002: $14.5 million) of this loan facility had been advanced.

NOTE 7: LONG-TERM DEBT

Effective January 1, 2002, the Company classified certain borrowings under its bank facilities as current liabilities, as required by CICA Emerging Issues Committee Abstract 122. Although it is not the Company's intention to repay these obligations within one year, the loan agreements provide the lender with the ability to call these obligations. The lender does not have the intention to enforce repayment within the next year but retains the legal right to do so.

As at December 31,	2003	2002
Term bank loans		
Obligations under long-term debt bearing interest at a floating rate of prime based on cash flow to annual debt service varying from prime plus 0.5% to 1.0% and maturing between June 2012 and October 2013. The monthly instalments as at December 31, 2003 are $201,218, including interest at the above rates (2002: $350,293). These loans are secured by assets with cumulative carrying values of $28,952,000.		
The Company entered into an interest rate swap arrangement to fix the interest rate on these obligations at 6.5%, inclusive of bank stamping fees of 2.05%. The fair value of the interest rate swap arrangement at December 31, 2003 was negative $402,896. This arrangement matures April 30, 2006.	**16,500**	22,500
Capital Leases		
Obligations under capital leases bearing interest at a floating rate of prime plus 0.50% and maturing March 2005 to March 2008. The monthly instalments as at December 31, 2003 are $47,518, including interest at the above rate (2002: $60,811). These loans are secured by assets with cumulative carrying values of $1,575,000.	**1,970**	2,536
Total term bank loans and capital leases	**18,470**	25,036
Less current portion	**1,810**	3,709
Less non current portion of callable bank loans	**15,114**	19,376
	1,546	1,951

Interest on long-term debt was $1.4 million (2002: $1.1 million). Principal payments required for each of the next five years are as follows:

	2004	2005	2006	2007	2008
Minimum Capital Lease Payments	570	594	457	570	131
Less: Imputed Interest	140	105	69	36	2
Capital Lease Obligation	430	489	388	534	129
Term Bank Loans	1,386	1,479	1,577	1,683	1,795
	1,816	**1,968**	**1,965**	**2,217**	1,924

NOTE 8: SHARE CAPITAL

Authorized
Unlimited number of voting common shares
Unlimited number of First Preferred shares, issuable in series, without nominal or par value.
Unlimited number of Second Preferred shares, issuable in series, without nominal or par value.

Issued	December 31, 2003 Common shares	Amount	December 31, 2002 Common shares	Amount
Balance, beginning of year	10,893,215	40,459	10,893,215	40,459
Stock options exercised	10,000	20	-	-
Balance, end of year	10,903,215	40,479	10,893,215	40,459

Stock-Based Compensation Plan
Effective January 1, 2004, Canadian accounting standards require recognition of compensation costs arising out of stock-based compensation plans. In 2003, the Company prospectively adopted this requirement, with the result that compensation expenses totaling $7,000 were recorded in general and administrative expenses. Had the fair value method been adopted in 2002, the Company's net earnings and earnings per share would have approximated the following pro forma amounts, without utilizing the transitional rules provided under section 3870 of the CICA Handbook:

December 31,	2003	2002
Compensation costs	38	60
Net earnings		
As reported	943	910
Pro forma	905	850
Earnings per common share		
Basic		
As reported	0.09	0.08
Pro forma	0.08	0.08
Diluted		
As reported	0.09	0.08
Pro forma	0.08	0.08

Under the Company's stock option plan, it may grant to directors, officers and employees up to 1,090,321 options to purchase common shares. The exercise price of each option is set at the closing market price of the Company's shares on the date immediately preceding the date of the grant and has a maximum term of up to ten years. The stock options vest over five years, with 20% vesting on each of the next five anniversary dates of the option grant.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

As at December 31,	2003	2002
Risk free interest rate	4.89%	5.14%
Expected life (years)	5	5
Expected volatility	52.79%	52.90%
Dividend yield	0%	0%

Stock Options

	Number of options	Weighted Average Price
Balance, December 31, 2001	810,500	6.96
Issued	325,000	2.70
Forfeited	(268,000)	6.82
Exercised	-	-
Balance, December 31, 2002	867,500	5.41
Issued	72,000	2.59
Forfeited	(206,000)	5.82
Exercised	(10,000)	2.05
Balance, December 31, 2003	**723,500**	**5.05**

Additional details on the Company's stock options outstanding at December 31, 2003 are as follows:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
$2.05 - $3.70	297,000	2.25	9.12	45,000	2.13
$6.50 - $7.75	426,500	7.01	6.81	224,500	7.03
$2.05 - $7.75	723,500	5.05	7.51	269,500	6.21

Basic and diluted earnings per share

	December 31, 2003			December 31, 2002		
	Net Earnings	**Shares**	**Per share amount**	Net Earnings	Shares	Per share amount
Basic earnings per share	**943**	**10,895,325**	**0.09**	910	10,893,215	0.08
Diluted earnings per share						
Dilutive effect of stock option conversions		**47,104**			23,963	
Income available to common shareholders and assumed conversion	**943**	**10,942,429**	**0.09**	910	10,917,178	0.08
Options and warrants excluded from diluted income per common share as their effect would be anti-dilutive		**486,500**			612,500	

NOTE 9: INCOME TAXES

Income taxes differ from the amounts that would be obtained by applying the statutory income tax rate to the respective year's earnings before income taxes. The following schedule explains the differences between the expected and actual tax expense.

Years ended December 31,	2003		2002	
Earnings before income taxes	1,462		1,658	
Income taxes at statutory rates	513	35.1%	584	35.2%
Add (deduct) the tax effect of:				
Permanent differences	(168)	(11.5%)	(17)	(1.0%)
Large corporation tax	157	10.7%	175	10.6%
Effect of change in tax rates on future income taxes	1	0.1%	7	0.4%
Other	16	1.1%	(1)	(0.1%)
	519	35.5%	748	45.1%

The following table explains the composition of the Company's future income tax balances:

Years ended December 31,	2003		2002	
	Asset	Liability	Asset	Liability
Capital assets	-	501	-	413
Warranty provision	285	-	350	-
Non-capital losses	141	-	120	-
Share issuance and 20(1)(e) deductions	-	(119)	-	(234)
	426	382	470	179

NOTE 10: OTHER INCOME

Other income includes gains on land held for resale of $801,000, reduced by $644,000 of expenses for the relocation of the Simpower fabrication operations to Red Deer, Alberta from Maple Ridge, British Columbia. The balance of other income in 2003 pertains to miscellaneous interest income and gains on dispositions of assets.

NOTE 11: SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital, net of the impact of business acquisition, consist of the following:

Years ended December 31,	2003	2002
Accounts receivable	786	6,692
Inventory and work-in-progress	6,842	10,601
Prepaid expenses and deposits	734	(279)
Income taxes recoverable	(157)	2,920
Accounts payable and accrued liabilities	(6,533)	(4,165)
Deferred revenue	1,522	(34)
	3,194	15,735

Additional cash flow information:

Years ended December 31,	**2003**	2002
Interest paid	**2,026**	1,997
Interest received	**73**	33
Income taxes paid	**568**	846
Income taxes refunded	**118**	3,038

NOTE 12: RELATED PARTY TRANSACTIONS

In the course of its regular business activities, the Company engages in routine transactions with Hanover Compressor Company, a significant shareholder of the Company. These transactions occur under normal market conditions and have been carried out on the same terms as would apply with unrelated parties.

Years ended December 31,	**2003**	2002
Sales of equipment and services	**11,026**	9,288
Purchases of parts, equipment and services	**500**	1,309
Amounts in account receivable	**2,854**	1,633
Amounts in account payable	**-**	-

NOTE 13: COMMITMENTS AND GUARANTEES

The Company, in the normal course of business, has various commitments and guarantees, none of which are deemed by management to be significant.

Operating lease commitments for office, warehouse and fabrication premises, office equipment and motor vehicles for each of the next five years ending December 31 are as follows:

2004	625
2005	540
2006	343
2007	82
2008	94

NOTE 14: SEGMENTED INFORMATION

The Company operates primarily in Western Canada in two reportable industry segments: Service and Fabrication. The Service division sells parts and services for gas compression and power generation equipment and the Fabrication division manufactures and assembles gas compression packages, power generation systems and oilfield production equipment. Corporate costs and assets include head office and other sundry items not allocated to the divisions. The results of these operating segments are regularly reviewed by the chief operating decision makers in evaluating the performance of the Company.

Years ended December 31,	2003	2002
Revenue		
Service	**45,263**	53,428
Fabrication	**77,891**	70,214
	123,154	123,642
Amortization		
Service	**1,452**	1,678
Fabrication	**2,028**	2,317
Corporate	**104**	127
	3,584	4,122
Earnings (loss) before interest and income taxes		
Service	**5,546**	6,247
Fabrication	**1,494**	1,415
Corporate	**(3,530)**	(4,016)
	3,510	3,646
Capital expenditures		
Service	**990**	902
Fabrication	**1,302**	261
Corporate	**92**	99
	2,384	1,262

As at December 31,	2003	2002
Assets		
Service	**39,584**	40,569
Fabrication	**58,366**	68,319
Corporate	**1,260**	886
	99,210	109,774

NOTE 15 DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan wherein it matches employee RRSP contributions to a maximum of $1,000 per employee per year. The expense for this plan is equal to the Company's required contribution for the year. The expense for the year ending December 31, 2003 is $220,000 (2002: $203,000).

NOTE 16: CONTINGENCES

The Company is involved in various litigation matters arising in the ordinary course of business. Management is confident that an adverse resolution of these matters would not have a material effect on the Company's operations or financial position.

NOTE 17: FINANCIAL INSTRUMENTS

Foreign Exchange
In the normal course of operations, the Company is exposed to currency fluctuation in relation to US dollar denominated inventory purchases. The Company does not utilize long-term hedging instruments. Management believes that this exposure is not material to its overall operations as U.S. exchange rate increases or decreases are factored into bidding for compression projects and international project revenues are denominated in US dollars.

Credit risk
A substantial portion of the Company's accounts receivable is with customers in the oil and gas industry and is subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers. In addition, export insurance and confirmed letters of credit are obtained on all material international projects.

Interest rate risk
The Company's bank borrowings and capital lease obligations are subject to floating interest rates. This floating rate debt is subject to interest rate risk, as the required cash flow to service the debt will fluctuate as a result of changes in market rates. The Company has mitigated the interest rate risk on the floating rate term debt by entering into an interest rate swap arrangement.

Fair values of financial assets and liabilities
The carrying amount of accounts receivable, accounts payable and accrued liabilities, operating loans and long-term debt approximate their fair value. The fair value of the operating loans and long-term debt do not differ from their carrying values due to the floating interest structure of these obligations.

Board Committees and their Mandates

Collicutt Energy Services' board of directors and members of the management team are committed to the highest standards of financial reporting and corporate governance. The board discharges its responsibilities directly at regularly scheduled meetings and through committees. At the scheduled meetings, members of the board and management discuss a broad range of issue relevant to Collicutt Energy Services' strategy and business interests.

The board has three standing committees: The Corporate Governance Committee, the Audit Committee and the Compensation Committee.

CORPORATE GOVERNANCE COMMITTEE

The Company's corporate governance practices were established to comply with the Guidelines for Improved Corporate Governance adopted by the Toronto Stock Exchange. These Guidelines address such matters as the constitution and independence of the board of directors, the roles of boards and their committees and the relationship among the Company's board, management and shareholders. A table outlining Collicutt Energy Services' compliance with these Guidelines is included in the Annual Proxy Information Circular.

AUDIT COMMITTEE

This committee reviews Collicutt Energy Services' audited financial statements and selected corporate disclosure documents and any financial statements required by regulatory authorities, before they are presented to the board for approval. It reviews and recommends to the board the appointment of the external auditor and the public release of quarterly financial results. This committee meets with the external auditors, independent of management, and receives a written report from the auditors concerning such issues as the results of its audit and its continuing independence.

COMPENSATION COMMITTEE

The Compensation Committee was established to make recommendations to the Board with respect to compensation issues relating to directors, senior management and employees of the Company, including monitoring the performance objectives and compensation package of the Chief Executive Officer. Collicutt Energy Services' compensation philosophy is directed to attract and retain talented and experienced people, deemed critical to the success of the Company. Compensation structure includes base salary, short-term incentives such as cash bonuses and long-term incentives in the form of stock options. Recommendations for executive compensation are made by the committee for the full approval of the board.

Corporate Information

Board of Directors

S. Patrick Shouldice (1) (2)
Executive Chairman of the Board of Directors
Collicutt Energy Services Ltd.

Steven M. Collicutt (2) (3)
President and Chief Executive Officer
Collicutt Energy Services Ltd.

Jeffrey S. Boyce (1)
President and Chief Executive Officer
Clear Energy Inc.

John A. Brussa (1) (3)
Partner
Burnet, Duckworth & Palmer LLP

Steven W. Muck
Vice-President, International
Hanover Compressor Company

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Corporate Governance Committee

Corporate Secretary

Gerard N. Feehan
Duhamel, Manning, Feehan, Warrender, Glass

Auditors

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

Bankers

HSBC Bank Canada
Red Deer, Alberta

Registrar and Transfer Agent

Computershare Investor Services
Calgary, Alberta and Toronto, Ontario

Officers

Steven M. Collicutt
President and Chief Executive Officer

Thomas E. Lewis, CA
Vice-President, Finance and Chief Financial Officer

D. Scott Collicutt
Vice-President, Sales & Marketing

Patric Huebler
Vice-President, Service

Solicitors

Duhamel, Manning, Feehan, Warrender, Glass LLP
Red Deer, Alberta

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Investor Relations Information

Requests for information should be directed to:

Steven M. Collicutt
President and Chief Executive Officer

Thomas E. Lewis, CA
Vice-President, Finance and Chief Financial Officer

TSX Trading Symbol: COH

Corporate Office

Collicutt Energy Services Ltd.
7550 Edgar Industrial Drive
Red Deer, Alberta T4P 3R2

Telephone: (403) 358-3200
Facsimile (403) 358-3210

Website: www.collicutt.com